

Message Text

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INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15 DRC-01

AGR-20 /197 W

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R 271757Z MAR 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9094

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: EFIN, UK

SUBJECT: PRESS COMMENTS ON MR. HEALEY'S FIRST BUDGET

REF: LONDON 3829, LONDON 3830, LONDON 3831

BEGIN SUMMARY: EDITORIAL PRESS COMMENT AGREES WITH MR.
HEALEY THAT HIS BUDGET IS BROADLY NEUTRAL WITH A TENDENCY
TO ERR ON THE SIDE OF DEFLATION. HOWEVER, THE FINANCIAL
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TIMES CHARACTERIZES IT AS "PROVISIONALLY CORRECT"; THE

TIMES SEES IT AS "A BUDGET FOR THE TUC"; THE DAILY TELEGRAPH ENTITLES THEIR EDITORIAL "BLEAK HOUSE"; AND THE GUARDIAN SEES THE BUDGET AS "ABOUT RIGHT ON FAIRNESS - BUT CAUTIOUS ON REFLATION." ALL AGREE THAT THE OUTLOOK FOR INDUSTRY IS GRIM AND THE BUDGET HAS DONE LITTLE TO ENCOURAGE INVESTMENT. END SUMMARY

1. THE FINANCIAL TIMES (FT) HAD ADVOCATED A BUDGET ALONG THE LINES WHICH MR. HEALEY HAS CHARACTERIZED HIS BUDGET, I.E. BROADLY NEUTRAL, WITH A TENDENCY TO ERR ON THE SIDE OF DEFLATION RATHER THAN THE REVERSE. WITH AN ECONOMIC SITUATION WHICH IS MORE OBSCURE THAN USUAL THERE WAS AMPLE REASON FOR THE CHANCELLOR TO SAY THAT THERE WOULD BE ANOTHER BUDGET LATER IN THE YEAR. WHILE MR. HEALEY WENT A LONG WAY TO MEET THE DEMANDS OF LABOUR'S SUPPORTERS THE COSTS THE FT SAYS "MUST BE SHARED MORE WIDELY AND MR. HEALEY'S RECIPE WILL THEREFORE BE WIDELY UNPOPULAR (I.E. BY TAXING THOSE WITH THE HIGHEST INCOMES). HOWEVER, THOSE WITH MIDDLING INCOMES WILL ALSO BE HIT AND THEREFORE THE FT CONCLUDES THAT IN THE BUDGET THE RIGHT STEPS WERE TAKEN IN THE CIRCUMSTANCES. RAISING THE PRICES CHARGED BY THE NATIONAL INDUSTRIES AND THUS REDUCING THE SIZE OF THE DEFICITS INCURRED BY THEM IS SEEN AS LONG OVERDUE. HOWEVER, IT MUST BE ACKNOWLEDGED THAT THE GENERAL RISE IN PRICES IMPLICIT IN THE BUDGET MEASURES, MAY MAKE IT MORE DIFFICULT TO SECURE VOLUNTARY WAGE RESTRAINTS. THE FT CONCLUDES BY ASKING WHERE THE UNIONS WILL REALLY BE WILLING TO ACCEPT WAGE RESTRAINT COUPLED WITH A HIGHER LEVEL OF PROFITABILITY IN UK INDUSTRY. UNLESS THIS HAPPENS "THE GROWTH OF THE ECONOMY IS LIKELY TO REMAIN TOO SLOW TO SATISFY THE DEMANDS PUT UPON IT."

2. THE TIMES BELIEVES THAT MR. HEALEY HAS "GIVEN TOO GREAT A PRIORITY TO THE TUC, AND TOO LOW A PRIORITY TO ECONOMIC IMPROVEMENT." IT SEES THE 1,000 MILLION POUNDS OF SUBSIDY AND RELIEF IN EXTRA ALLOWANCES AS UNBALANCING THE BUDGET. BY UNBALANCE, THE TIMES MEANS IN THE SENSE OF EQUALITY OF SACRIFICE WHICH THE CHANCELLOR HAS CALLED FOR AS WELL AS AN UNCOMFORTABLY LARGE BORROWING REQUIREMENT OF 2,700 MILLION POUNDS. THE TIMES SEES A NUMBER OF

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POINTS WHICH DESERVE PRAISE AND SUPPORT, I.E. RAISING PRICES IN THE NATIONALIZED INDUSTRIES; INCREASING THE EXCISE DUTIES AND BROADENING THE BASE OF VAT AND INCREASING DIRECT TAXATION. HOWEVER, THE BUDGET "SHOWS ABSOLUTELY NO CONCERN FOR THE WELFARE OF INDUSTRIAL CAPITAL AT ALL." THEY GO ON TO SAY "THE SITUATION WHICH HAS BEEN CREATED IS ONE IN WHICH INDUSTRY HAS NO INCENTIVE TO INVEST OR EXPAND, HAS TO FACE INCREASED TAXATION AT A TIME

WHEN PROFITS ARE FALLING QUITE RAPIDLY, SEES A GOVERNMENT
OPENLY HOSTILE TO ANY SUBSTANTIAL PRIVATE SAVING, ONE
CLEARLY DOMINATED BY THE TRADE UNIONS. THEIR ECONOMIC
INTEREST IS TO MAXIMIZE THE WAGES AND THEREFORE THE
IMMEDIATE CONSUMPTION OF THE MAJORITY OF THE MEMBERS OF
THE MORE POWERFUL UNIONS. THAT IS NOT BAD IN ITSELF, BUT
IT IS A POOR BASE ON WHICH TO RUN A COUNTRY, BECAUSE IT
HAS TOO NARROW AN INTEREST." WHILE THE TIMES DOES NOT
BELIEVE MR. HEALEY INTENDED TO ALIENATE OR DAMAGE INDUSTRY
THEY SEE THE FACT THAT THE BUDGET PROVIDES NO VIEW OF THE
FUTURE OF THE PRIVATE SECTOR OF INDUSTRY, AND CERTAINLY
NO INCENTIVE FOR PRODUCTIVE INVESTMENT BY PRIVATE INDUSTRY
AS A MATTER OF REAL REGRET. THE TIMES BELIEVES THAT
"WITHOUT AN EFFICIENT PRIVATE SECTOR WE (THE U.K.) HAVE

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DEPT PASS TRSY

NO CAPACITY TO PRODUCE A GOOD LIVING IN THE WORLD."

3. THE DAILY TELEGRAPH SEES THE CHANCELLOR AS BEING RIGHT TO MAKE HIS BUDGET JUDGMENT A PROVISIONAL ONE. WHILE THE BUDGET IS SEEN AS CAUTIOUSLY ORTHODOX, IT "GIVES NO HOPE TO ANYBODY, EXCEPT PERHAPS FOR THOSE ON THE LOWEST INCOMES." THE TELEGRAPH GOES ON TO SAY THAT "MR. HEALEY OFFERED NO HOPE OF AN EARLY AND DRASTIC REDUCTION IN THE RATE OF INFLATION" NOTING THAT FOOD SUBSIDIES HAVE
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USUALLY INCREASED DEMAND WITHOUT INCREASING SUPPLY. WHILE HIGHER PRICES IN THE NATIONALIZED INDUSTRIES ARE FAVORED, THE TELEGRAPH SEES THE OUTLOOK FOR INDUSTRY AS A WHOLE AS GRIM AND DISTURBING. THE UK IS IN URGENT NEED OF NEW INVESTMENT, INNOVATION, RISK TAKING.

4. THE GUARDIAN SEES THE BUDGET AS "PROPERLY REDISTRIBUTIVE." HOWEVER, THE CHIEF AIM OF THE MOVES TAKEN MUST BE TO HELP THE GOVERNMENT TO GET RESTRAINT IN WAGE AND SALARY BARGAINING. IF MR. HEALEY HAS NOT WON THE SUPPORT OF THE TUC HIS BUDGET HAS FAILED. THE GUARDIAN SEES THAT WITH THE LARGE BALANCE OF PAYMENTS DEFICIT AND INTEREST AND PRINCIPAL DUE ON THE \$2.5 BILLION BORROWING, "MR. HEALEY WILL BE ABLE TO GET BRITAIN OUT OF THE RED AGAIN IF INDUSTRY GIVES HIM THE PRODUCTIVE EFFORT AND THE RESTRAINT ON PRICES AND INCOMES THAT HIS SOCIALLY REDISTRIBUTIVE BUDGET DESERVES." THE GUARDIAN SEES THE NEXT BUDGET AS MORE LIKELY TO BE A REFLATIONARY ONE BEFORE THE NEXT ELECTION RATHER THAN A DEFLATIONARY ONE AFTER IT. SOME OF THE BUDGET'S MOST POTENT DEFLATIONARY MEASURES - NOTABLY THE RISE IN INCOME TAX - WILL ONLY BEGIN TO BITE IN THE LAST MONTHS OF 1974. THE GUARDIAN THUS WARNS THAT "BY THEN, IF THE CHANCELLOR DOES NOT ALTER THE COURSE HE SET FOR HIMSELF YESTERDAY (MARCH 25), THE ECONOMY MAY WELL HAVE CEASED TO GROW ALTOGETHER AND UNEMPLOYMENT MAY BE RISING STEEPLY."

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